Aon Risk Solutions

Airline insurance
market update

Q3 2012

The low level of claims and the high level of capacity continues to drive the soft insurance market conditions. Despite this, underwriters continue to be selective of the risks they support.

Contents

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Overview

- Current data shows premium falling while exposures climb
- Claims are 60% lower than the five year average
- Markets maintain selective risk strategies
- Analysis highlights enormous growth of Asia Pacific over the last decade.

Summary

Activity on 1 July equates to around 40% of the 2012 year-to-date lead hull and liability premium, as well as the renewal of a number of major airline insurance programmes.

The numbers for the month are complicated by one major placement finding itself in financial difficulties as well as another programme restructuring its insurance policy and renewing with significantly reduced exposures.

Stripping this programme out of the data and July's average fleet value (AFV) and passenger change would both be +5%, and overall premium down 10%, more in line with the trends for 2012 so far.

Only a quarter of the 20 renewals recorded for July have forecast exposure reductions.

More coverage, falling prices

Only a single airline has seen it's premium climb by more than 10% during the month, the result of a loss.

This means that rates in the airline insurance market continue to decline, with the price of premium falling despite rising AFV and passenger number forecasts.

Capacity continues to be a key driver, with healthy competition for attractive risks. The low level of claims in 2011 and so far in 2012 is also a significant factor.

Nevertheless, underwriters are highly risk selective at the moment, so it remains important to engage actively with the insurance markets to ensure that the renewal process is positive.

	Risks	Fleet value movement (% change)	Passenger movement (% change)	Expiring premium (US$m)	Renewal premium (US$m)	Premium movement (% change)
2011	217	+6	+9	1,880.96	1,821.71	-3
Q1	9	+40	+12	18.15	23.48	+29
April	16	+5	+9	148.18	129.93	-12
May	15	+1	+7	72.56	67.52	-7
June	12	0	+3	29.36	27.63	-6
July	20	+2	+1	198.55	174.79	-12
2012 to date	72	+4	+6	466.81	423.36	-9

Losses

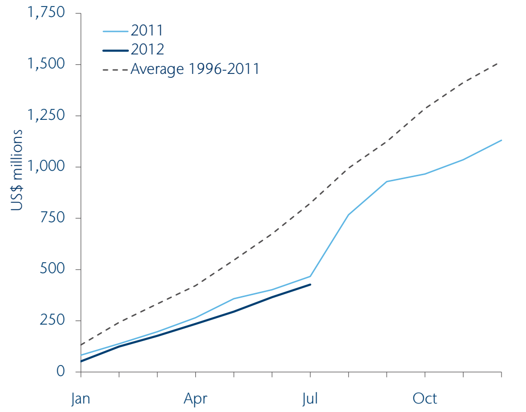
The last 18 months have seen a relatively low number of claims, which will be a factor in the current soft market conditions.

The current loss figure so far this year, excluding minor losses, is US$76.62 million, compared to US$116.68 million recorded at the same point in 2011. Adding an estimate for minor losses, the overall total is US$426.62 million at present, compared to US$466.68 million in 2011.

Last year's loss figures at this point in the year were also at a historic low, meaning that overall claims figures so far for 2012 are extremely positive.

Including an estimate for minor losses, claims for 2012 so far are 40% lower than the 1995-2011 average and 60% lower than the five year average.

Cumulative claims 2012
(Including minor loss estimate)



Source: Aon loss data
Averages exclude September 11th 2001 losses

It should be pointed out that the airline industry will always represent a considerable risk and that a single claim or string of claims can instantly change these statistics.

Claims in 2012 continue to be exceptionally low

Industry events to enhance risk management

Flight Global's Flight Safety Conference

Aon Risk Solutions is sponsoring Flight Global's Flight Safety Conference in London on September 17-18.

We will present a discussion on Managing risk: the interface between safety and commercial, covering safety optimization and managing change in an economic downturn.

The benefits of attending include:

- Expert practical guidance on implementing effective safety management systems (SMS) and embedding a good safety culture
- Case studies from aviation and other industries, network with organisations that have strong safety systems
- Discuss proactive flight crew fatigue management and how to incorporate it as part of broader SMS
- Learn how to overcome SMS implementation challenges
- Understand how to mitigate reduced pilot experience and skill level in the face of greater automation

For additional information on this event, please visit the conference website: flightglobalevents.com/flightsafety2012

Aon is sponsoring Flight Global's flight safety conference in London on 17-18 September

Free tickets for Transport Security Expo

Aon Risk Solutions is pleased to offer free tickets to the 2012 Transport Security Expo (Transec), 14-15 November, London, UK.

Transec is the premier international event for transport industry professionals, providing a unique environment in which to debate problems, learn from the experience of others and discover the innovative solutions offered by commercial vendors.

There are three conference programmes: Aviation, Marine and Public Transport. Aon will be participating in the Marine and Aviation conferences and hosting an area during the evening drinks reception. In addition, Aon's crisis consultants are running a free crisis management workshop.

Register for Free Tickets

If you would like free tickets to Transec please visit transec.com/AON and enter the discount code Aon when prompted during the registration process*. For full details of the event please visit: transec.com

*The free code provides access to any of the conference streams, however the offer is limited to one conference per day. Places are limited and free tickets will be provided on a first come, first serve basis. Please note a maximum of three tickets will be allocated per organisation. Tickets provide entrance to the conference only and do not include transport, accommodation or additional expenses.

Aon has secured a number of complimentary passes to the 2012 Transport Security Expo

Insurance data highlights Asia Pacific growth

Personal wealth has risen dramatically in many parts of the Asia Pacific over the last decade, which has led to increased demand for both personal and business air travel.

Analysis in the Airline Insurance Market Outlook 2012 (available from aon.com/aviationinsight and AonLine) shows that the region has become the largest both in terms of exposure and premium.

Massive exposure growth...

Comparing the data from 10 years ago with the full year data for 2011 shows that Asia Pacific's growth between 2002 and 2011 has been nothing short of phenomenal.

Comparing the insurance market information between 2002 and 2011 highlights the airline industry's phenomenal growth in Asia Pacific

Projected passenger exposures have grown by 120%, average fleet values (AFV) by 87% and the number of aircraft 130%.

While there has been growth across the industry as a whole for the same period, the figures for Asia Pacific are at least 50% higher than the global average in each category.

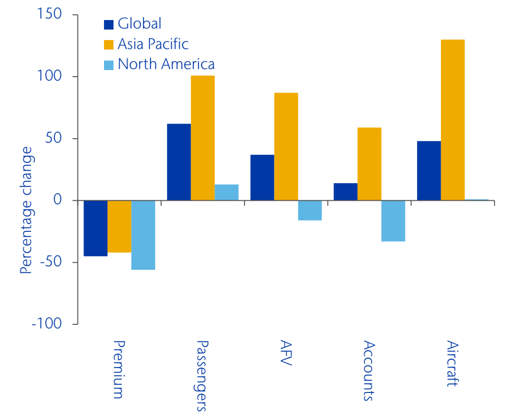
This growth is further highlighted when compared to North America, which was the largest of the regions in 2002. Over the same period passenger numbers have only risen 10%, while AFV and aircraft numbers have actually declined, reflecting differing economic fortunes.

With contraction there has also been consolidation, with North America having some 33% less renewals than in 2002, compared to a 59% increase for Asia Pacific.

...premium follows

As a result of the exposure increases, hull and liability premium for Asia Pacific has declined least of all the regions over the same period.

Premium and exposure change
2002-2011



Source: Aon data

Interestingly, total premium is only 3% less than the market overall and 14% less than North America.

This means that airlines in the Asia Pacific are currently enjoying better value insurance than they were 10 years ago. This reflects a much improved safety record in many of the region's countries as well as the benefits of economies of scale from an insurance point of view.

It should be pointed out that every region faces different conditions and challenges. The maturity of the aviation industry in North America for example, means that there is little opportunity for the type of growth witnessed in developing regions such as the Asia Pacific.

It is also important to note that the comparisons may not be perfect when looking at historical data. The adjustment in insurance prices after 9/11 will also be a factor.

The evolution of the insurance figures in Asia Pacific however does show how the markets have responded to the region's growth.

With double digit growth predicted in 2012 on a number of programmes in the region, Asia Pacific's surge shows little sign of slowing.

Aerospace confidence grows

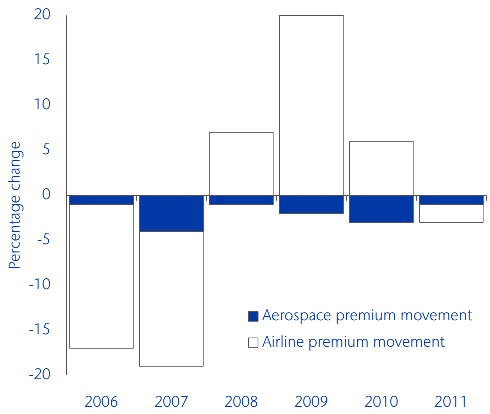
Confidence is improving in the aerospace industry, with over 80 percent of airports forecasting an increase in passenger number forecasts for 2011/12 insurance programmes, according to Aon Risk Solutions' Aerospace Insurance Market Outlook 2012. Airframe and component manufacturers are also showing signs of optimism, with more than 60 percent forecasting turnover increases for 2011/12, compared to 40 percent for 2010/11 insurance programmes.

The cost of insurance premium continues to fall, reflecting healthy capacity in the market as well as the exceptionally low level of incidents in 2011. The report highlights a period of consistency in the aerospace insurance markets, particularly in comparison with the airline sector, which has swung between hard and soft pricing conditions over the last decade.

The report represents the data Aon has collected about airports and air traffic controllers; engine, airframe and component manufacturers; and aviation service providers to offer a comprehensive look at how the insurance market is evolving.

Commenting on the report's findings, Mike Smith, Business Leader of the Aviation and Space team in London, said, "The conditions continue to be positive for buyers of aerospace insurance overall, but the price

Average annual percentage premium movement
(original reporting currency percentage change)



of insurance continues to represent the risk being placed. Organisations forecasting significant growth or with significant losses on their programmes will see prices remain stable or even rise; however, the gently falling prices overall reflect the continued improvements in technology, quality and working practices apparent across the aerospace industry.

"The market has been consistently soft since 2007, and there is little sign of conditions changing in the near term, with programmes placed in 2012 so far continuing the trend."

To read the full report, please go to aon.com/aviationinsight or AonLine

The price of insurance in the aerospace industry continues to fall. Despite five years of falling prices, there is little sign that the bottom of the market has been reached

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All figures detailed in this newsletter include all known information at time of production on the lead London terms of airlines renewing with fleet values in excess of US$150 million. They do not take into account any coverage changes and are not weighted in any way with regard to the size of the airline's fleet or the volume of premium paid.

Average fleet values are the average value of a fleet during the entire length of the insurance programme rather than a single specific date.

Loss information excludes Russian built equipment and the data only includes losses with a total incurred value of over US$1 million. We only write about losses over US$10 million.